

municipal finance authority

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MANAGEMENT DISCUSSION AND ANALYSIS

THIS Management Discussion and Analysis (MD&A) provides a discussion and analysis of the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2008 fiscal year and should be read in conjunction with the 2008 audited statements and accompanying notes.

OVERVIEW OF BUSINESS

The MFA was established in 1970 under the *Municipal Finance Authority Act* (the "Act") to provide financing and short term investment opportunities for 28 regional districts and their member municipalities, regional hospital districts and other prescribed institutions in BC (collectively, the "clients"). Also included in the client base are the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District, Emergency Communications for

Southwest British Columbia (E-Comm), Capital Region Emergency Service Telecommunications (CREST), and the South Coast British Columbia Transportation Authority (TransLink). The City of Vancouver is also a MFA member but functions under its own charter and retains the right to issue its own securities. Long-term debt requirements of municipalities (5 to 30 years) must be borrowed through the MFA.

Our business is also subject to requirements included in other statutes. Significant provincial legislation includes the *Local Government Act* and the *Community Charter*.

We raise long-term financing by issuing debentures in the capital markets. Our debt instruments are in the name of the Municipal Finance Authority of British Columbia. This report and the financial statements describe this process in further detail. Long-term financing is our primary

source of funds for client loans to finance capital infrastructure in British Columbia.

The MFA raises short-term financing through a very active \$500 million Commercial Paper Program fully back stopped by two Canadian chartered banks. As well, the MFA has additional access to liquidity through a \$200 million credit facility with a Canadian chartered bank. Short-term financing supports our capital lease financing program and provides interim financing for short-term capital projects and funding in anticipation of long-term borrowing or qualifying future revenue receipts. In order to maintain an active presence in the financial markets, we typically issue our authorized limit, and any monies raised that are not immediately re-lent to clients are invested in short-term highly rated investments, including chartered banks.

BC credit unions and cash for liquidity purposes.

Short-term investment opportunities are provided through the Pooled Investment Fund. Three funds are maintained: Money Market Fund, Intermediated Fund, and a Bond Fund. A separate statement and greater detail are provided in the Pooled Investments, Financial Statements of the annual report. MFA does not provide investment advice to our clients who participate in the Pooled Investment Fund.

GOVERNANCE

The MFA is represented by a 38-member board appointed from the elected officials from each of the 28 regional districts within BC. A board of ten Trustees is elected annually from the Members to exercise executive and administrative powers including policy strategy and business plans. The Board of Trustees also provides oversight through

a Finance and Audit Committee, a Human Resources Committee, and an Investment Advisory Committee.

KEY PERFORMANCE DRIVERS

Reputation and History

The MFA has never imposed a tax levy for default purposes or accessed its Debt Reserve Fund. The continued successful financial results of the MFA have resulted in a return of program rebates and distributions to its members greater than the amounts received through the nominal tax levy collected on an annual basis.

Borrowing Process

We work with our clients and the Province of British Columbia to ensure that they understand and follow the requirements of our Act and other relevant legislation regarding the borrowing process and borrowing limits. All borrowings must be

within the municipalities' borrowing power, which stipulates that only 25% of sustainable revenue may be spent on debt servicing costs (principal and interest). An imposed cap on the inclusion of tax revenue from industry lessens the reliance on industry as a sole revenue source. The purpose is to highlight diversification and show that local governments are not relying solely on one type of tax class for revenue, a factor that is especially important in the current economic downturn.

Long-term borrowing requests or bylaws must first be approved at the local government level through a public consultation process and then must receive approval at the Regional District level through consent of all participating municipalities within that Regional District.

Bylaws must also receive legal approval from the Provincial Ministry through the issuance of a Certificate

of Approval, which ensures not only that the request is within financial borrowing limits but also that the bylaw can not be challenged in court. Only after these steps have been completed can a borrowing bylaw be presented to the MFA for funding consideration.

Requests for financing must be reviewed and approved by the 38 Members of the Authority. The Board of Trustees may authorize the issuance and sale of securities in consideration of the relevant market and economic conditions.

INVESTOR CONFIDENCE

We are always able to access long-term financing, typically through 10-year debentures, which accommodate both the average borrowing terms requested by our clients and the market preferences of investors. Serial and longer-dated debentures have been issued at times to meet the needs of MFA's funding requirements.

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MANAGEMENT DISCUSSION AND ANALYSIS *continued*

To syndicate our bond issue, we use the services of a financial services consortium that represents six Canadian chartered banks and three other financial institutions.

We are consistently able to access short-term financing through a very active Commercial Paper Program with a distribution network of seven, represented by six Canadian chartered banks and one other financial institution. Having a large dealer network allows us wider distribution to investors throughout Canada.

CAPABILITIES

Joint and Several

All local governments guarantee each other's debt borrowings. When a municipality passes a borrowing bylaw and presents it to its Regional District for purposes of issuing security, all municipalities must vote on the acceptance of that borrowing. Approval

of the borrowing binds each municipality with joint and several obligations.

In the normal course of business, the MFA collects debt servicing costs from Regional Districts, who in turn requisition funds from the participating municipalities. If a municipality defaults, then the Regional District incurs that deficiency and must work to recover the default from the underwriting municipalities.

Debt Reserve Fund

In the process of funding client's requests for long-term loans, the MFA will withhold 1% of each member's gross request as cash and place those monies in a Debt Reserve Fund. These funds are held as security for bondholders against any potential loan defaults. Once a member has fulfilled its loan obligation its portion of the Debt Reserve Fund is refunded. As stated in the *MFA Act*, if at any time the MFA can not

meet its payment obligations, these payments must be made from the Debt Reserve Fund. Never has a municipality defaulted on its loan payments nor has the MFA required the use of funds in the Debt Reserve Fund.

Taxing Powers

Under the provisions of its Act, the MFA has unfettered access to the full property assessment base in the Province of British Columbia without requiring approval from any senior level of government. For administrative purposes, the MFA does apply a nominal tax rate annually in order to ensure that the levy and collection process continues to function.

In the unlikely event of a default, the MFA may increase this tax levy rate to a level deemed necessary to recover any loan deficiencies. As stated in the Act, if the Trustees are of the opinion that payments

made from the Debt Reserve Fund cannot be recovered from the defaulting clients, then they may impose a levy sufficient to restore the Debt Reserve Fund. If the Debt Reserve Fund balance falls below 50% of the amount that would have been in the fund had no payment been made then the Trustees must impose a tax levy.

MANAGEMENT AND STAFF

The MFA operates with a dedicated, professional staff of only nine with a combined service record of 55 years. Both MFA's Director of Finance and Director of Business Services have over 10 years experience working with the MFA, with the balance of the staff averaging six years experience in administering MFA's programs. A cooperative approach is used to ensure that all of the programs the MFA offers have highly trained, efficient staff working with our members.

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MANAGEMENT DISCUSSION AND ANALYSIS *continued*

Staff members are continually updating their skills to keep current, and they travel throughout the Province working with our members to assist with their financial requirements.

PERFORMANCE MEASUREMENT

Independent Credit Rating

The MFA's financial strength is founded on its organizational structure and the conservative nature of its clients. Through a combination of checks and balances on the borrowing process, joint and several obligations of members, a substantial Debt Reserve Fund, and the ability to levy a tax on all property in the Province, the MFA continues to maintain its high credit worthiness. Our credit agencies all rate the MFA and its general obligation debenture debt as the highest quality of investment available. Our credit

ratings at December 31, 2008, were Aaa (Moody's Investor Services), AAA (Standard & Poor's), and AAA (Fitch Ratings).

Our Commercial Paper Program is also rated by Moody's Investor Services and Standard & Poor's. Our short-term credit ratings at December 31, 2008, were P-1 (Moody's Investor Services) and A-1+ (Standard & Poor's). These ratings are the highest ratings for short-term money market instruments in Canada. The commercial paper issued is fully backstopped by two Canadian chartered banks that supply dedicated term loan facilities.

COST OF BORROWING

During 2008, the MFA issued two 10-year debentures. We measure our performance against other senior governments and large municipalities in Canada.

On April 23, 2008, we issued

a \$440 million debenture with a return of 4.649%. At the time of this issue, the Government of Canada 10-year bonds were yielding an interest rate of 3.579%. Other municipal credits were returning a yield in the range of 4.680% to 4.780% at the time of this issue.

On November 20, 2008, we issued a \$400 million debenture with a return of 5.148%. At the time of this issue, the Government of Canada 10-year bonds were yielding an interest rate of 3.668%. Other municipal credits were returning a yield in the range of 5.200% to 5.600%.

During 2008, we issued just over \$1.8 billion in commercial paper ranging in terms from 30 to 182 days. Since the inception of the program in 2003, the yield has averaged 10 basis points over the Government of Canada Treasury Bills. Our last issuance in December 2008, for a 30-day term yielded of 0.950%.

RISK MANAGEMENT

The staff of the Authority is responsible for identifying risks and recommending the appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

Market and Interest Rate Risk

To minimize market volatility, the Authority requires that all borrowing be denominated in Canadian dollars and that all clients are funded at the same time market debentures are launched. The Authority can not invest in any equity securities.

The Authority sets re-lending rates on its loans to clients such that the cash flow requirements on debenture debt are covered. A re-financing interest rate risk exists for

clients with loan terms that extend beyond the term of the associated debenture. At re-financing, the MFA will re-set the re-lending rate on remaining client loans in relation to the new issuance of debt.

Liquidity Risk

Liquidity risk is the risk that the Authority will not have sufficient cash to meet its obligations as they become due. The Authority manages its liquidity risk by monitoring its cash flows on a daily basis, maintaining a liquid Debt Reserve Fund (\$102 million as at December 31, 2008), accessing its banking demand facility (\$197 million available as at December 31, 2008), and actively participating in the commercial paper market.

The Authority can also invoke the Joint and Several guarantee of its clients, call outstanding demand notes, and collect a property tax levy on the entire province.

Operational Risk

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors, or malfeasance. These risks can never be fully eliminated but are minimized by establishing appropriate policies and sound internal controls through an appropriate segregation of duties, accountability and reporting practices, and stringent controls over cash balances and cash movements.

Client Credit Risk

Client credit risk is the risk of loss due to a client failing to meet its obligations to the Authority. Since inception, the Authority has never experienced a loan default. Before the Authority advances any loans, clients must have the financial capacity to service the debt as regulated by the Province and must adhere to a strict borrowing process.

OUTLOOK

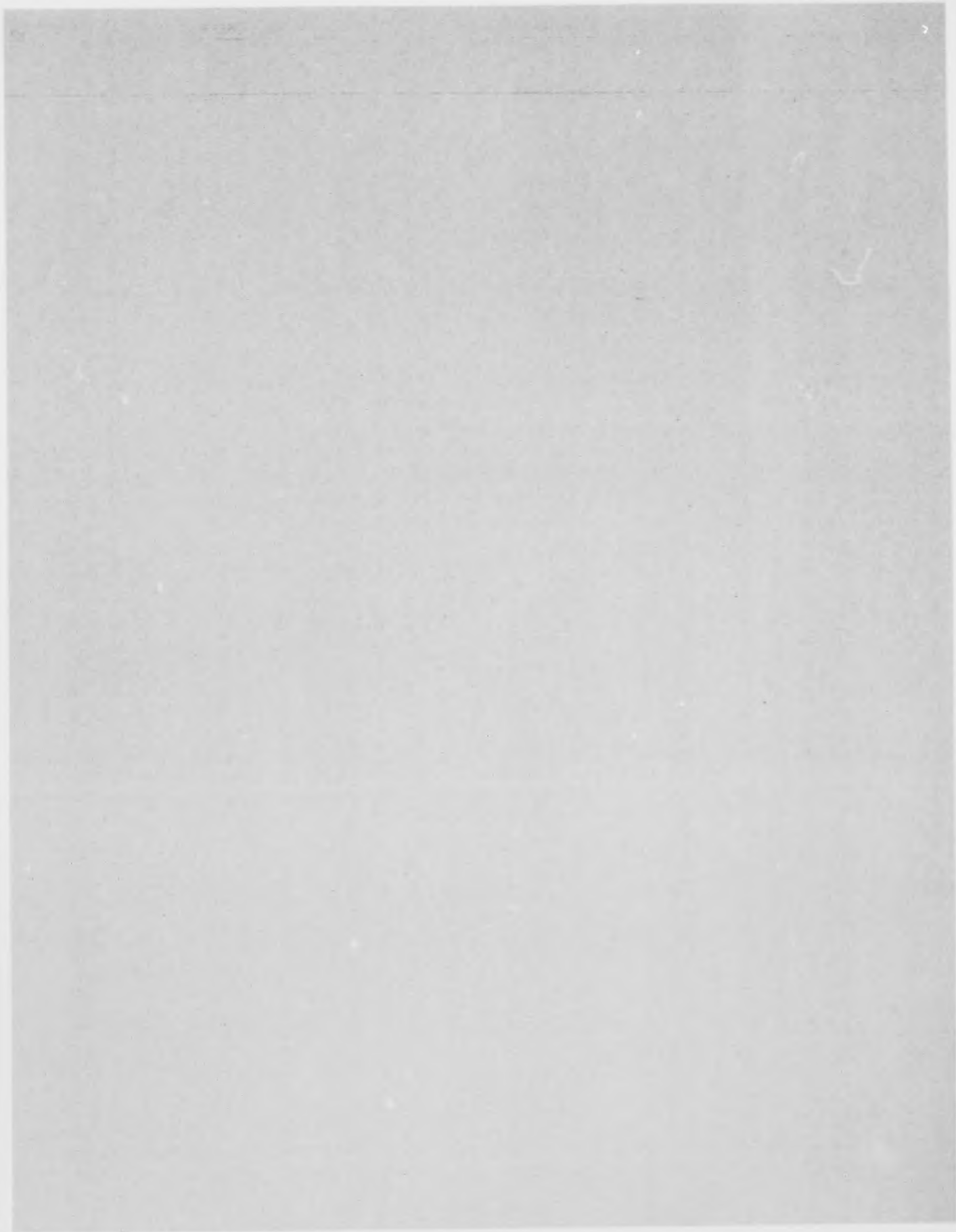
The outlook for our programs continues to be strong. Our results, including access to financial markets and cost of funds, will be shaped by economic performance in Canada and the rest of the world. 2008 proved to be a challenging year, and this trend will persist through 2009 with an expectation that the economic downturn will continue into 2010. Liquidity and investor confidence in our bond offerings and commercial paper program will be considered carefully. We will work closely with our Members and clients to understand their requirements and the impact of Federal and Provincial economic policy, including any economic stimulus.

FINANCIAL SUMMARY

The Authority continues to produce favorable financial results. In 2008 an

operational surplus of \$1 million was realized after the declaration of rebates to its members totaling \$700,000.

Results from capital financing also provided for a surplus of \$50 million prior to any distributions back to members. During the year, members of the Authority were allocated \$87 million consisting of surplus payments, forgiven loan repayments, and actuarial adjustments. The combined effect of operational and capital financing surpluses and redistributions to members resulted in a reduction in net assets of \$19 million over 2007.



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FINANCIAL STATEMENTS

MANAGEMENT REPORT

The consolidated financial statements of the Municipal Finance Authority of British Columbia (the "Authority") are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at January 28, 2009.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization.

The financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present the Authority's financial position, results of operations, and cash flows in accordance with Canadian generally accepted accounting principles. Their Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Trustees, through the Finance and Audit Committee, monitors management's responsibility for financial reporting and internal controls. The Board or Committee meets regularly with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Members of the Authority. The external auditors have full and open access to the Board, with and without the presence of management.



DIRECTOR OF FINANCE

VICTORIA, BRITISH COLUMBIA, CANADA

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FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Members of the Municipal Finance Authority of British Columbia

We have audited the consolidated balance sheets of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2008 and 2007, and the consolidated statements of revenue, expenditure and net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS
VICTORIA, BRITISH COLUMBIA, CANADA
JANUARY 28, 2009

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CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	2008	2007
ASSETS		
Loans to clients (Note 3)	\$ 4,397,126	4,058,809
Short-term loans to clients (Note 4)	185,226	168,980
Investments, net of holdings of the Authority (Notes 5 and 6)	1,456,908	1,327,491
Accrued interest and other receivables	92,367	121,656
Cash and cash equivalents	99,202	9,547
Capital assets (Note 7)	705	730
Total Assets	\$ 6,231,534	5,687,213
LIABILITIES		
Long-term debt (Note 8) (Schedule)	\$ 5,357,506	4,889,753
Bank and short-term indebtedness (Note 9)	575,629	511,517
Due to clients (Note 10)	104,292	98,405
Accounts payable and accrued interest payable (Note 11)	83,855	57,954
Total Liabilities	6,121,282	5,557,629
Equity in capital assets	705	730
Net Assets (Note 1b)	109,547	128,854
Total Liabilities, Equity and Net Assets	\$ 6,231,534	5,687,213

See Accompanying Notes to Consolidated Financial Statements



DIRECTOR OF FINANCE

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CONSOLIDATED STATEMENTS OF REVENUE, EXPENDITURE AND NET ASSETS

Years ending December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	2008	2007
REVENUE		
Interest from loans to clients	\$ 302,490	284,738
Investment income	67,191	67,097
Management fees	1,714	1,488
Recoveries from new issues	429	429
Operating levy	160	197
Total Revenue	371,984	353,949
EXPENDITURE		
Interest on long-term debt	259,600	239,166
Interest on bank and short-term indebtedness	15,386	19,827
Amortization of discount on debt and other	38,408	13,217
Administration	2,603	2,825
Accrual of investment income due to clients (Note 6)	5,156	2,680
Debt management and marketing	223	264
Total Expenditure	321,376	277,979
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	50,608	75,970
Net Assets, beginning of the year	128,854	159,607
Effect of adoption of new accounting policies (Note 2)	—	15,174
Allocations to clients (Note 12)	(87,000)	(120,318)
Application to equity in capital assets	25	25
Unrealized gains (losses) from change in fair value of available for sale investments	17,760	(904)
Dividends paid	(700)	(700)
Net Assets, end of the year	\$ 109,547	128,854

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ending December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	2008	2007
OPERATING ACTIVITIES		
Excess of revenue over expenditure for the year	\$ 50,608	75,970
Non-cash items:		
Gain on disposal of investments	(1,490)	(876)
Accretion of discounts on investments	(22,853)	(23,719)
Amortization of discount on debt and other	5,244	13,217
Accrual of investment income due to clients	5,156	2,680
Amortization on building	25	25
Changes in accrued interest and other receivables	29,289	(4,781)
Changes in accounts payable and accrued interest payable	25,901	(1,594)
Net cash provided by operating activities	91,880	60,922
INVESTING ACTIVITIES		
Investments sold or matured	1,979,972	2,374,484
Investments purchased	(2,064,862)	(2,305,156)
Net cash provided by (applied to) investing activities	(84,890)	69,328
FINANCING ACTIVITIES		
New debt issued	855,776	905,254
Debt retired	(414,693)	(435,506)
Loan repayments from clients	1,088,260	1,148,888
New loans to clients	(1,499,362)	(1,907,235)
Bank indebtedness and commercial paper issued	6,880,783	7,272,965
Bank indebtedness and commercial paper repaid	(6,816,671)	(7,021,637)
Contribution from clients for new loans	6,439	11,429
Contributions and earnings thereon refunded to clients	(4,224)	(12,072)
Payments of surplus to clients (Note 12)	(11,460)	(34,749)
Payments of sewer and water grants to clients	(1,483)	(2,070)
Payments of investments under management to clients	—	(60,567)
Dividends paid	(700)	(700)
Net cash provided by (applied to) financing activities	82,665	(136,000)
Increase (decrease) in cash and cash equivalents	89,655	(5,750)
Cash and cash equivalents, beginning of the year	9,547	15,297
Cash and cash equivalents, end of the year	\$ 99,202	9,547

Supplementary cash flow information (Note 13)

See Accompanying Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ending December 31, 2008 and 2007

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

The Municipal Finance Authority of British Columbia (the "Authority"), operates under the *Municipal Finance Authority Act* (the "Act") as a central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts and special purpose other municipal bodies (collectively the "clients"). The Authority issues its own securities and lends the proceeds to its clients at whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia and are not guaranteed, directly or indirectly, by the Province.

The Authority may annually impose rates not exceeding prescribed amounts on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the Board of Trustees is of the opinion that debt repayments may not be recovered within a reasonable time under the loan agreements with its clients. Under Section 149 (1) (c) of the *Income Tax Act*, the Authority is exempt from income taxes.

The accompanying financial statements reflect the capital financing and general operation of the Authority. The Authority also oversees the maintenance of pooled investment funds which are reported separately by the Authority.

The financial statements of the Authority have been prepared by management in accordance with Canadian generally accepted accounting principles. The Authority maintains its accounts according to the principles of fund accounting by which financial resources are segregated for specific activities or to attain certain objectives. The primary activity of the Authority is the provision of financial services to its clients which are recorded in the Debt Fund. In addition, the Act provides for an Operating Fund and Debt Reserve Fund which are also included in the consolidated financial statements.

DEBT FUND

The Authority's financing activities on behalf of its clients are recorded within the Debt Fund. As well, the Debt Fund is a repository for repayments from the clients under their loan agreements in advance of the Authority's requirements on its related indebtedness.

The Debt Fund also includes a short-term financing program to provide financing to local governments under section 11 of the Act. The Act was amended in 1992 to extend financing to other public institutions (as defined) in the Province of British Columbia.

The fund provides a revolving credit facility for its clients under two programs:

Interim Financing Program – for tax revenue anticipation, interim funding requirements and temporary financing of capital projects.

Leasing Program – for funding the short-term leasing of capital assets.

OPERATING FUND

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the Capital Financing activities, the Operating Fund receives management fees from the Pooled Investment Funds and the short-term financing program and pays the cost of their operations (see note 15).

DEBT RESERVE FUND

Under the Act, the Authority must establish a Debt Reserve Fund. Each client sharing in the proceeds of a securities issue is required to pay into the Debt Reserve Fund an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing together with one-half the average annual installment of principal and interest as set out in the agreements entered into with the regional district by their borrowings; such amount is payable either in full or in an amount equal to 1% of the principal amount borrowed with the balance secured by a non-interest bearing demand note.

If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions shall be made from the Debt Reserve Fund (see note 6).

b. Net Assets

The net assets balance primarily represents undistributed and unallocated earnings on investments in excess of budgeted actuarial earnings and are due to clients once the debt is retired. The amount of net assets re-allocated to clients is

disclosed in the Statements of Revenue, Expenditure and Net Assets (see note 12).

The Authority may appropriate operating fund net assets for future expenditures.

c. Revenue recognition

The annual operating levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the Province and the Provincial Surveyor of Taxes and is payable to the Authority on August 1 each year.

d. Issue costs

Issue costs consisting of discounts and premiums are amortized on an effective yield basis over the lives of the securities to which they relate and are presented as an offset to long-term debt.

Transaction costs on issuance of long-term debt are recognized in the Consolidated Statements of Revenue, Expenditure and Net Assets in the period incurred.

e. Investments

The investment purchasing and trading policy of the Authority is to match the maturity of its investment with the applicable obligation dates of the related debt.

Although investments are typically held to maturity, all investments have been designated as available for sale and stated at fair value.

In determining fair value, adjustments have not been made for transaction costs as they are not considered significant. Any unrealized change in fair value is reflected in net assets and subsequently transferred to the Consolidated Statements of Revenue, Expenditure and Net Assets when realized.

Fair values of investments are determined at quoted market prices where available. Where quoted market prices are not available, estimated fair values are calculated using comparable securities.

f. Capital assets

Capital assets are stated at cost. Amortization of the building is provided on a straight-line basis over 40 years.

g. Financial instruments

The Authority periodically enters into certain financial contracts that may be considered hedging transactions. These transactions include forward interest rate contracts on behalf of clients and certain derivative instruments where established cash flow streams are exchanged for a future cash payment upon contract maturity. The Authority does not conduct derivative trading or contracting for trading gain.

At the request of individual clients and only after all required political authorizations and borrowing documentation are in place, the Authority will negotiate with a financial institution to enter into a derivative contract to fix the interest rate on a client's borrowing request at a specified future date. These actions by the Authority's clients are in consideration of either a re-financing risk regarding exposure to future interest rate fluctuations or a desire for budgetary certainty. Since the Authority does its debenture borrowing in the spring and fall, some clients' requests may occur outside of these dates causing them to have potential interest rate exposure if not hedged. The Authority settles the derivative contract with the financial institution and recovers the settlement cost from the client.

As part of the sinking fund investment practices, the Authority may purchase derivative or cash flow annuity contracts with institutions whereby the Authority sells a cash flow stream of principal collections from a client or group of clients to an institution for a future lump sum principal amount. The Authority will enter into these contracts to achieve fixed yields to meet actuarial requirements or to aggregate cash flows which could not be effectively invested by themselves due to the small amounts involved on individual transactions. Fair values of these instruments are determined using market prices for the underlying derivative instrument.

When derivative contracts are established, the Authority determines for each contract whether hedge accounting can be applied. Derivatives that qualify for hedge accounting are accounted for on an accrual basis. The Authority explicitly demonstrates that hedges are effective in order to continue accrual accounting. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold.

During the years presented, no derivative contracts were accounted for under hedge accounting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

All loans to clients, long-term debt, bank and short-term indebtedness and accounts receivable and payable are classified as loans and receivables or other liabilities and are recorded at amortized cost using the effective interest rate method.

h. Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates used in the preparation of the financial statements include the assumption of an expected earnings rate on sinking funds, (5% up to and including Issue 88 and 4% on issues thereafter) which makes up a portion of the asset "Loans to clients" (see note 3).

i. Comparative figures

Certain 2007 comparative figures have been reclassified to conform to the financial statement presentation for the current year.

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2007 the Authority prospectively adopted CICA Handbook sections 3855 (Financial Instruments – Recognition and Measurement), 3861 (Financial Instruments – Disclosure and Presentation) and 3865 (Hedges). A transitional adjustment of \$15,174,000 was recorded as an increase in net assets, comprised of an increase in net assets of \$18,100,000 on revaluation to market value of available-for-sale investments and a write-off of \$2,926,000 in deferred transaction costs.

Future accounting changes

The Canadian Institute of Chartered Accountants will transition Canadian generally accepted accounting standards for publicly accountable entities to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Authority is currently assessing the applicability and potential impact of these standards on its financial statements. The impact of the transition to IFRS on the Authority's financial statements has not yet been determined.

3. LOANS TO CLIENTS

Under the Act, each client sharing in the proceeds of a securities issue must pay over to the Authority such sums as are required to discharge its obligations to the Authority in respect to such securities issue. If the scheduled payments provided for under the loan agreement are not sufficient to meet the Authority's obligations in respect of that securities issue, the deficiency is a liability of the client to the Authority.

Loans are initially measured at fair value and subsequently re-measured at amortized cost using the effective interest method. The Authority conducts an annual evaluation of loan impairment to determine if an impairment write-down is necessary. A reduction in the carrying value of a loan may be recovered by an offsetting transfer from the Debt Reserve Fund and ultimately through a levy on taxable land and improvements if it is believed that payments under loan agreements may not be recovered within a reasonable time.

The aggregate principal payments recoverable from the clients in each of the next five years and aggregated to maturity (excluding principal payments suspended as outlined in Note 12) are as follows:

THOUSANDS OF DOLLARS		
2009	\$	255,380
2010		245,937
2011		233,639
2012		229,295
2013		216,505
2014 – 2018		866,278
2019 and thereafter		738,799
	\$	2,785,833

Also included in Loans to clients are budgeted non-cash actuarial adjustments of \$1,611,293,000 (2007 – \$1,477,002,000). As principal payments are received, the associated actuarial adjustments are credited to the loan balance outstanding.

When the Authority, under Section 14 of the Act and with the approval of the Inspector of Municipalities, has determined that the amount of the assets in the sinking fund together with the anticipated earnings for that fund is greater than the amount which will be required to repay the debt or discharge

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from the clients under the related loan agreements are suspended.

4. SHORT-TERM LOANS TO CLIENTS

The short-term loans receivable represents loans for the following purposes:

THOUSANDS OF DOLLARS		
	2008	2007
Tax revenue anticipation	\$ 231	380
Temporary financing of capital projects	133,085	118,638
Short-term capital borrowing	2,672	2,329
Short-term leases of capital equipment	49,238	47,633
	\$ 185,226	168,980

Short-term leases of capital equipment bear interest at a rate of prime minus 1% while all other short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.425%. Short-term leases on capital equipment carry a maximum term of five years while other short-term loans can range in length from nine months to a maximum of five years.

5. INVESTMENTS, NET OF HOLDINGS OF THE AUTHORITY

Investments consist of securities of:

THOUSANDS OF DOLLARS			
	PAR VALUE	FAIR VALUE	FAIR VALUE
	2008	2008	2007
Government of Canada	\$ 27,494	19,874	38,082
Provincial governments	517,418	437,117	448,201
Chartered banks	714,311	693,972	685,664
Credit unions in the Province of BC	225,000	225,000	155,247
MFA Pooled Investment Funds	73,980	73,980	—
Regional and Municipal governments	7,096	6,965	297
	\$ 1,565,299	1,456,908	1,327,491

Investments in Government of Canada, Provincial governments, and chartered banks may be direct or guaranteed.

MFA Pooled Investment Funds are pooled unit holdings of fixed income securities under the Pooled Investment Funds which were established under Section 16 of the Act. These funds are managed by Phillips Hager North and are reported on separately.

The Authority may invest monies in its own securities maturing not later than the securities for which the sinking fund account was created. At December 31 the Authority held an additional \$3,362,975 (2007 – \$5,786,230) in investments of the Authority's own debentures purchased from the market. These investments in Municipal Finance Authority of British Columbia debentures have been offset against the related debt in the consolidated financial statements.

6. DEBT RESERVE FUND

Included in Investments are investments of the Debt Reserve Fund:

THOUSANDS OF DOLLARS			
	PAR VALUE	FAIR VALUE	FAIR VALUE
	2008	2008	2007
Government of Canada	\$ 16,781	9,875	26,386
Provincial governments	6,679	6,102	6,908
Chartered banks	43,587	40,816	50,074
Credit unions in the Province of BC	10,000	10,000	10,000
Regional and Municipal governments	136	136	—
	\$ 77,183	66,929	93,368

The Debt Reserve Fund holds assets as security for debenture payments to bondholders. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund. The balance held in the Debt Reserve Fund is as follows:

municipal finance authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

THOUSANDS OF DOLLARS

	2008	2007
Cash	\$ 34,407	421
Accrued interest receivable	541	717
Investments	66,929	93,368
	\$ 101,877	94,506

Also integral to the fund but not presented on the balance sheets are Demand Notes receivable from clients in the amount of \$226,830,954 (2007 – \$207,250,087) which are entered into upon the Authority lending debenture proceeds to its clients and are callable on demand to meet Authority obligations. Once clients have made the final payment under their respective loan agreements the Demand Notes will be extinguished. For financial statement presentation these Demand Notes receivable have been classified as an offset to Due to clients because of their contingent nature. None of these notes have ever been called in the history of the Authority.

If the Board of Trustees of the Authority are of the opinion that the payments made from the Debt Reserve Fund may not be recovered under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province of British Columbia rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the fund is less than 50 percent of the amount that would have been in the fund had no such payments been made.

During the year the Debt Reserve Fund recognized total revenue of \$5,271,609 (2007 – \$2,830,459) and incurred total expenditures of \$115,709 (2007 – \$150,780). Included in net assets is a mark to market valuation loss on the investments held in the fund of \$186,935 (2007 – \$1,319,129). The Authority's practice is to hold investments until maturity to minimize the impact of fluctuation of market pricing on investment values. The excess of revenue over expenditures in the fund was \$5,155,900 (2007 – \$2,679,679) and is allocated as an accrual of investment income due to clients.

7. CAPITAL ASSETS

Capital assets represent the net book value of the land and building out of which the Authority operates. The land and building, purchased at an original cost of \$998,000, is reflected net of accumulated amortization of the building of \$293,053 (2007 – \$268,121).

8. LONG-TERM DEBT

The aggregate long-term debt maturities in each of the next five years and aggregated to maturity are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder).

THOUSANDS OF DOLLARS

2009	\$ 768,267
2010	207,577
2011	565,271
2012	445,264
2013	388,569
2014 – 2018	2,518,075
2019 and thereafter	464,483
	\$ 5,357,506

Since the clients' bylaw terms (up to 30 years) do not always coincide with the Authority's debenture term (usually 10 years), many clients' borrowing requests are expected to be refinanced. Scheduled refinancing over the next five years and the current average interest rates on the refinanced amounts, are as follows:

THOUSANDS OF DOLLARS	REFINANCING	AVERAGE EXISTING INTEREST RATE
2009	\$ 330,650	6.11%
2010	36,000	4.98
2011	298,000	5.90
2012	150,000	5.25
2013	230,000	4.89

municipal finance authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

9. BANK AND SHORT-TERM INDEBTEDNESS

The Authority has an agreement under which a chartered bank provides a revolving credit facility of up to \$200,000,000 subject to repayment within 30 days following demand by the bank. As at year end, \$71,426,744 (2007 – \$52,391,213) was outstanding under the credit facility and the interest rate on the line of credit was 1.87% (2007 – 4.81%).

The Authority operates a commercial paper facility which allows for the issuance of short-term notes in the name of the Authority up to 365 days in duration and requires a fully backed standby line of credit from one or more chartered banks. As at year end, \$500,000,000 (2007 – \$459,125,741) in commercial paper was outstanding. The interest rate on commercial paper issued ranged from 0.95% to 3.76% (2007 – 4.02% to 4.58%).

The Authority's clients may choose loan terms from five to 30 years. Since most debenture debt issued to finance these loans matures in 10 years, the debt issues must usually be refinanced. The decision to issue new debt or use the Authority's short-term financing program is made by taking into account economic and market conditions as well as sinking fund positions. Included in bank and short-term indebtedness at year end are issues refinanced through the short-term financing program, including accrued interest, of \$49,702,245 (2007 – \$122,307,488).

10. DUE TO CLIENTS

Included in amounts Due to clients is \$101,876,783 (2007 – \$94,505,847) which will be repaid to clients when they have made the final payment under their respective loan agreements. However, where a municipality has discharged its obligation to a regional district with respect to a securities issue, the Authority may repay to the regional district, for the credit of the municipality, a portion of the money which is an obligation to the regional district and the money so paid shall be applied to reduce that obligation.

THOUSANDS OF DOLLARS

2009	\$	2,018
2010		4,406
2011		4,525
2012		5,105
2013		6,895
2014 – 2018		29,198
2019 and thereafter		49,729
	\$	101,876

Included in the amounts due to clients are sewer and water facilities assistance grant monies payable to regional districts and municipalities. Prior to March 2002, certain regional districts and municipalities with sewer and/or water facility loans outstanding would receive semi-annual grant funding from the Province of British Columbia to offset a portion of annual debt servicing costs incurred. Between March 2002 and September 2004, the Authority received lump sum payments totaling \$42,186,418 from the Province for application towards these loans outstanding. The Authority is responsible for distributing these payments to clients on a semi-annual basis as related principal and interest payments are received from clients.

The Authority has estimated total distributions of these funds out to the expiry dates of the applicable sewer and/or water loans to be \$1,206,032 (2007 – \$2,682,908). The estimated future payments are as follows:

THOUSANDS OF DOLLARS

2009	\$	650
2010		278
2011		278
	\$	1,206

As at December 31, 2008, the Authority has recognized a liability with a present value of \$1,143,498 (2007 – \$2,475,692). The Authority has invested the present value in securities to mature at the required value of \$1,206,032 (2007 – \$2,682,908). Also included in Due to clients are surplus earnings of \$1,272,689 (2007 – \$1,423,379) on these securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

11. ACCOUNTS PAYABLE AND ACCRUED INTEREST PAYABLE

Accounts payable and accrued interest payable includes the difference between the unscheduled early payout (present value) by various clients and the book value of their liabilities to the Authority. These early payments by clients are based on the cost to the Authority of purchasing investments that will exactly match the principal and interest payments the client would have otherwise made (based on the present value of the yield curve at the time of the early payment).

12. ALLOCATIONS TO CLIENTS

This amount is the total of surpluses earned (excess earnings) by the investments relating to specific debenture issues that have matured and were distributed back to the clients for which the financing was undertaken. Accruals of investment income due to clients, allocations of net earnings to clients which apply to the Debt Reserve Fund, and the Sewer and Water grant monies in the Debt Fund are shown separately. During the year, the following surplus was allocated:

THOUSANDS OF DOLLARS		
	2008	2007
Cash surplus repayments	\$ 11,460	34,749
Future invoice payments forgiven	3,742	13,312
Actuarial earnings recognized	71,798	72,257
	\$ 87,000	120,318

Included in the 2008 Actuarial earnings recognized is \$29,229,109 (2007 – \$27,677,535) of accrued earnings calculated from the last principal payment dates to December 31, 2008.

13. SUPPLEMENTARY CASH FLOW INFORMATION

During the year, the Authority received the following cash payments:

THOUSANDS OF DOLLARS		
	2008	2007
Interest from clients	\$ 301,970	277,332
—long-term debt		
Interest from clients	8,488	9,564
—short-term debt		
Interest from investments	65,435	52,388

During the year, the Authority made the following cash payments:

THOUSANDS OF DOLLARS		
	2007	2006
Interest on long-term debt	\$ 259,362	239,935
Interest on short-term indebtedness	15,386	19,827

The amounts shown on the Consolidated Statements of Revenue, Expenditure and Net Assets are recorded on an accrual basis and may differ from the information presented above on a cash basis.

14. FINANCIAL INSTRUMENTS

a. Risk management

The Authority has a restrictive investment policy as defined in the Act which limits investments to fixed income securities of the Government of Canada and its agencies, Provinces in Canada, local governments in Canada, chartered Canadian banks, and Canadian saving institutions. No equity investments are permitted.

All long-term loans to clients are approved according to Provincial legal and financial requirements and each loan requested from the Authority must be reviewed by the Board of Members prior to funding. 1% of each borrowing request must be deposited as a refundable cash contribution with the Authority and held in the Debt Reserve Fund as security against possible loan default. Furthermore the Authority has the power to levy a province-wide property tax to meet operational requirements.

b. Liquidity risk

Liquidity risk arises from the risk that a portfolio may not be able to settle or meet its obligation on time or at a reasonable price.

Each loan request is funded at the time the Authority raises funds in capital markets and the cash flow on debt repayment is matched to the cash flow on loan collections. The Authority monitors cash resources daily and continually reviews future cash flow requirements to ensure obligations are met.

The Authority also maintains an active commercial paper program of \$500 million, has access to bank demand facilities of \$200 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations.

c. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Although investments are purchased with the intention to hold to maturity, they are designated as available for sale. Changes in the fair value of investments have parallel changes in the value of net assets. Any investment trading will only occur if the entire transaction is within the investing policy and enhances the overall position of the portfolio. No investment trading is done on speculation of interest rate changes. Investments are not liquidated if market prices decline.

The Authority sets the lending rates on loans to clients at similar rates to the yield realized on debenture issuances such that the cash flow obligations on the debentures and the related loans financed are matched. Any changes in interest rates during the period in which loans and the related debentures are outstanding will have no impact on operations.

Upon maturity of certain debt issues, the Authority may refinance any remaining loans receivable balances associated with those debt issues through the Authority's short-term financing program. At year end, the Authority had \$49,702,245 (2007 - \$122,307,488) of these loans outstanding subject to floating interest rates. As at December 31, 2008 this floating rate was 1.920% (2007 - 4.860%) while the related relending of these funds to its clients ranged from 4.500% to 7.250%

(2007 - 4.500% to 7.250%). During the year, interest in the amount of \$3,503,328 (2007 - \$8,071,144) was paid to the short-term financing program on these loans.

d. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment.

The investment portfolio is restricted to investment grade (BBB or higher) fixed income securities and the Authority maintains the preservation of principal as its highest priority.

Clients requesting loans from the Authority must first comply with provincially imposed financial criteria which define borrowing limits and assess the ability to service new and existing debt. Within each Regional District, each member municipality has joint and severable obligations for all long-term loans undertaken. The general credit strength of each individual municipality supports the credit worthiness of the Authority.

For transactions that engage financial institutions as counterparties, the Authority will only enter into agreements with Schedule I or Schedule II banks with a credit rating of single A or better.

e. Other price risk and currency risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

All loans and long-term debt are recorded at amortized cost using the effective interest method. Any clients that pay out loan obligations prior to maturity must cover all cash flow requirements to the maturity date at the time of pay out.

The Authority is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

f. Derivatives

The Authority has entered into certain financial agreements to hedge investment yields with third party financial institutions whereby the Authority will make periodic payments in exchange for certain future cash receipts. At year end, the future payments under these contracts, due to the Authority,

municipal finance authority

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

is \$389,580,130 (2007 – \$302,865,232) while related principal payments by the Authority towards those agreements are \$144,451,603 (2007 – \$169,907,919).

As at December 31, 2008, the Authority has recorded a liability in accounts payable and accrued interest payable which represents the fair value of derivative instruments as at December 31, 2008 of \$42,295,545 (2007 – \$16,235,178). The liability arises from the current market valuation of contracts that have preset future re-lending rates on client loan agreements. This valuation recognizes the difference between the present value of the stated interest rate in the contracts and the prevailing market rate discounted to December 31, 2008. At execution date of the contracts, any difference between the contract rate on the client's loan and the market rate on the Authority's debenture will be realized. The value at this time will either be collected from the client or from the financial institution with the intention that the Authority will remain cash neutral in the transaction.

g. Fair value

The carrying values of cash and cash equivalents, accrued interest and other receivables, due to clients, accounts payable and accrued interest payable, and bank and short-term indebtedness approximate their fair value due to the relatively short periods to maturity of the instruments.

Investments are recorded at fair value.

The fair values of other financial assets and liabilities included in the Consolidated Balance Sheets at carrying amount are as follows:

THOUSANDS OF DOLLARS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
		2008		2007
Loans to clients	4,397,126	4,485,262	4,058,809	4,102,154
Short-term loans to clients	185,226	185,226	168,980	168,980
Long-term debt	5,357,506	5,532,887	4,889,753	5,055,962

Fair values were estimated as follows:

- Loans to clients – values estimated using prices equivalent to the related long-term debt for each issuance.

- Short-term loans to clients – values based on effective yield basis that approximates cost.
- Long-term debt – prices based on yield to maturity on first call date using appropriate spreads over Canada Bonds as a benchmark.

15. OPERATING FUND

Included in the Consolidated Balance Sheets of the Authority are the following assets and liabilities of the Operating Fund:

THOUSANDS OF DOLLARS	BOOK VALUE	BOOK VALUE
	2008	2007
Cash and cash equivalents	\$ 5,526	5,109
Accrued interest receivable and other	947	480
Capital assets	705	730
Total Assets	\$ 7,178	6,319
Accounts payable	\$ 813	1,099
Equity in capital assets	705	730
Net assets	5,660	4,490
Total Liabilities, Equity and Net Assets	\$ 7,178	6,319

During the year the Operating Fund recognized total revenue of \$4,258,746 (2007 – \$3,949,420) and incurred total expenditures \$2,412,336 (2007 – \$2,501,014). The Operating Fund also declared program participation dividends payable for its clients in the amount of \$700,000 (2007 – \$700,000). Included in other net assets is \$1,693,867 (2007 – \$1,829,000) that has been appropriated for future expenditures.

16. INVESTMENTS HELD IN TRUST

At December 31, 2008 the Authority held investments in trust on behalf of clients in the amount of \$130,723,000 (2007 – \$416,484,000) which are not included in these financial statements.

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SCHEDULE OF LONG-TERM DEBT

December 31, 2008 and 2007

THOUSANDS OF DOLLARS

ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
PAYABLE IN CANADIAN DOLLARS:				
55CP	1993	May 12, 2013	8.750	50,000
63XX	2005	December 1, 2010	4.000	121,000
68CV	1998	March 24, 2008	5.500	336,000
70CW	1999/2000	June 1, 2009	5.250	646,000
74CX	2001	June 1, 2011	5.900	491,800
78CZ	2002/2003	December 3, 2012	5.250	340,000
80	2003	October 3, 2008 – 2012	4.000 – 4.850	130,700
80DA	2003	December 3, 2013	4.900	288,300
81DB	2004	April 22, 2008 – 2013	3.750 – 4.950	40,000
85DC	2004	December 2, 2014	4.900	180,000
86DD	2004	December 2, 2024	5.350	50,000
87	2008	May 1, 2011	3.850	19,000
88	2004	October 1, 2009	4.710	200
91	2005	March 16, 2010	3.250	220
92DF	2005	April 6, 2008 – April 6, 2015	3.650 – 4.70	63,400
93DG	2005	April 6, 2025	4.978	118,300
95DH	2005	October 13, 2015	4.150	167,000
96DI	2005	April 2, 2026	4.600	50,000
97DL	2006	April 19, 2016	4.650	715,000
98	2006	May 15, 2011	4.000	175
101DM	2007	December 1, 2017	4.800	500,000
102DN	2007	December 1, 2027	4.950	310,000
103DO	2008	April 23, 2018	4.600	440,000
104DQ	2008	November 20, 2018	5.100	400,000
Carried Forward				5,457,095

2008	2007	
LONG-TERM OUTSTANDING	LONG-TERM OUTSTANDING	REFERENCES
50,000	50,000	(1)
121,000	121,000	(1)
—	336,000	(1)
646,000	646,000	(1)
491,800	491,800	(1)
340,000	340,000	(1)
66,800	84,100	(1)
288,300	288,300	(1)
20,400	25,300	(1)
180,000	180,000	(1)
50,000	50,000	(1)
19,000	19,000	(1)
200	200	(1) (2)
220	220	(1) (2)
51,100	55,200	(1)
105,026	109,054	(1)
167,000	167,000	(1)
50,000	50,000	(1)
715,000	715,000	(1)
175	175	(1) (2)
500,000	500,000	(1)
310,000	310,000	(1)
440,000	—	(1)
400,000	—	(1)
5,012,021	4,538,349	

Continued on next page

municipal finance authority

SCHEDULE OF LONG-TERM DEBT *continued*

December 31, 2008 and 2007

THOUSANDS OF DOLLARS

ISSUE / SERIES	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
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PAYABLE IN CANADIAN DOLLARS:			Brought Forward	\$ 5,457,095
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507 to 628	1999	April 10, 2009 - November 30, 2023	7.5000 - 11.330	297,929
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703 to 713	1999	July 10, 2009 - July 21, 2010	5.7410 - 9.610	418,830
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903	1996	January 9, 2012	9.500	33,000
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912	1996	January 9, 2012	9.500	24,000
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6,230,854

PAYABLE IN CANADIAN DOLLARS - ISSUED THROUGH FEDERATION OF CANADIAN MUNICIPALITIES:

1	2003	March 14, 2010	3.490	1,455
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2	2003	March 31, 2013	3.710	2,100
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3	2004	June 11, 2014	3.182	20,000
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4	2005	June 6, 2015	2.900	11,310
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34,865

Debt due to bondholders

\$ 6,265,719

Less: Amounts held as investments by the Authority:

Amounts issued as commercial paper by the Authority:

Unamortized issue costs:

Long-term debt

2008	2007	
LONG-TERM OUTSTANDING	LONG-TERM OUTSTANDING	REFERENCES
5,012,021	4,538,349	
142,022	170,969	(1) (3)
118,059	118,059	(1) (4)
33,000	33,000	(1) (5)
24,000	24,000	(1) (5)
5,329,102	4,884,377	
415	623	(1) (6)
1,050	1,260	(1) (6)
20,000	20,000	(1) (6)
11,310	11,310	(1) (6)
32,775	33,193	
5,361,877	4,917,570	
3,363	5,786	
-	19,000	
1,008	3,031	
5,357,506	4,889,753	

REFERENCES TO SCHEDULE OF LONG-TERM DEBT

December 31, 2008 and 2007

- 1 Non-callable prior to maturity.
- 2 Five-year Community Bond.
- 3 Debt issues, relating to the Regional Hospital Districts, transferred from Province of British Columbia to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of 40 debenture issues averaging \$3.551 million each. Individual issue detail is not shown.
- 4 Debt issues, relating to TransLink, transferred from Province of British Columbia to MFA under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province. Debt comprised of three debenture issues averaging \$39.353 million each. Individual issue detail is not shown.
- 5 Debenture issues transferred from Province of British Columbia to MFA on April 1, 1996. The debt outstanding remains in the name of the Province.
- 6 Debentures issued through the Federation of Canadian Municipalities and administered by the MFA.

municipal finance authority

SCHEDULE OF LOANS TO CLIENTS

Unaudited—Outstanding at December 31, 2008

THOUSANDS OF DOLLARS (EXCEPT PER CAPITA)

	PRINCIPAL OUTSTANDING DEC. 31, 2007	NEW LOANS 2008	LOANS REPAYED 2008	PRINCIPAL OUTSTANDING DEC. 31, 2008	per capita	PRINCIPAL TO BE REPAYED (Note b)	per capita
REGIONAL DISTRICTS (Note a)							
Alberni-Clayoquot	\$ 22,649	-	1,474	21,175	691	\$ 11,528	376
Bulkley-Nechako	8,177	677	849	8,005	209	4,958	130
Capital	300,770	137,446	28,962	409,254	1,186	267,206	774
Cariboo	36,796	-	3,754	33,042	531	18,914	304
Central Coast	297	-	14	283	89	119	37
Central Kootenay	33,602	10,122	2,557	41,167	737	22,048	395
Central Okanagan	143,273	45,632	10,361	178,544	1,100	109,651	676
Columbia Shuswap	41,627	13,019	3,658	50,988	1,017	28,720	573
Comox Valley	66,002	3,435	5,247	64,190	1,743	38,612	1,048
Cowichan Valley	25,913	15,988	1,947	39,954	519	23,489	305
East Kootenay	42,301	9,421	5,292	46,430	837	32,676	589
Fraser-Fort George	127,951	2,882	8,187	122,646	1,329	73,671	798
Fraser Valley	139,661	43,083	9,645	173,099	673	105,649	411
Greater Vancouver	882,220	96,281	89,515	888,986	420	577,867	273
Kitimat-Stikine	11,577	1,994	1,173	12,398	317	7,209	184
Kootenay Boundary	22,212	3,345	2,254	23,303	758	15,154	493
Mount Waddington	6,940	500	519	6,921	594	4,419	379
Nanaimo	84,494	339	6,717	78,116	563	49,014	354
North Okanagan	95,527	1,717	5,994	91,250	1,180	54,865	710
Northern Rockies	12,302	8,000	560	19,742	3,212	11,042	1,796
Okanagan-Similkameen	78,157	40,647	5,241	113,563	1,429	77,191	971
Peace River	93,278	14,362	5,958	101,682	1,745	63,722	1,094
Powell River	9,224	-	1,524	7,700	393	4,291	219
Skeena-Queen Charlotte	15,112	1,250	855	15,507	789	9,312	474
Squamish-Lillooet	35,063	24,897	2,553	57,407	1,630	35,787	1,016
Strathcona	18,094	2,872	3,960	17,006	263	11,198	173
Sunshine Coast	51,850	-	2,494	49,356	1,778	31,143	1,122
Thompson-Nicola	110,505	6,436	8,122	108,819	890	74,936	613
OTHER							
E-COMM	111,874	-	5,877	105,997	44	63,456	26
CREST	12,451	9,600	1,056	20,995	61	14,894	43
TransLink	1,418,910	150,000	79,309	1,489,601	704	943,092	446
	\$ 4,058,809	643,945	305,628	4,397,126	1,069	2,785,833	677

Note a: Included in each Regional District's loan balance is its associated Regional Hospital District debt. As at year end the loan balance attributed to these Regional Hospital Districts was \$294,458.165 (2007 - \$272,421,773).

Note b: The Authority finances clients' borrowing requests through the issuance of bullet debentures. Clients in turn discharge their loan obligations with annual principal repayments to the Authority which are invested until the maturity date of the associated financing debenture. The Authority budgets to earn a specified return on these investments and annually credits the clients' loan balances with this amount. The difference between the Principal Outstanding of \$4,397,126,000 and the Principal To Be Repaid of \$2,785,833,000 represents this future budgeted earnings of the Authority.

municipal finance authority

FIVE-YEAR REVIEW

THOUSANDS OF DOLLARS	2008	2007	2006
ASSETS			
Loans to clients	\$ 4,397,126	4,058,809	3,464,840
Short-term loans to clients	185,226	168,980	109,169
Investments, net of holdings of the Authority	1,456,908	1,327,491	1,294,111
Investments under management	-	-	60,567
Accrued interest and other receivables	92,367	121,656	121,811
Cash and cash equivalents	99,202	9,547	15,297
Capital assets	705	730	755
Total Assets	\$ 6,231,534	5,687,213	5,066,550
LIABILITIES, EQUITY AND NET ASSETS			
Long-term debt	\$ 5,357,506	4,889,753	4,427,449
Bank and short-term indebtedness	575,629	511,517	260,189
Due to clients	104,292	98,405	98,438
Due to clients - investments under management	-	-	60,567
Accounts payable and accrued interest payable	83,855	57,954	59,545
Total Liabilities	\$ 6,121,282	5,557,629	4,906,188
Equity in capital assets	705	730	755
Net Assets	109,547	128,854	159,607
Total Liabilities, Equity and Net Assets	\$ 6,231,534	5,687,213	5,066,550
REVENUE			
Interest from loans to clients	\$ 302,490	284,738	271,051
Investment income	67,191	67,097	65,326
Management fees	1,714	1,488	1,306
Recoveries from new issues	429	429	429
Operating levy	160	197	161
Total Revenue	\$ 371,984	353,949	338,273
EXPENDITURE			
Interest on long-term debt	259,600	239,166	233,118
Interest on bank and short-term indebtedness	15,386	19,827	12,606
Amortization of discount on debt and other	38,408	13,217	10,642
Administrative	2,603	2,825	1,913
Allocation of investment income to clients	5,156	2,680	6,912
Debt management and marketing	223	264	197
Total Expenditure	\$ 321,376	277,979	265,388
Excess of revenue over expenditure for the year	50,608	75,970	72,885
Net Assets, beginning of the year	128,854	159,607	173,001
Effect of adoption of new accounting policies	-	15,174	-
Accrued allocation to clients	-	-	-
Allocations to clients	(87,000)	(120,318)	(85,704)
Application of equity in capital assets	25	25	25
Unrealized gains (losses) from change in fair value of available-for-sale investments	17,760	(904)	-
Dividends paid	(700)	(700)	(600)
Net Assets, end of the year	\$ 109,547	128,854	159,607

2005	2004
3,262,912	3,245,464
143,773	229,579
1,051,810	1,122,924
108,310	154,210
91,317	101,266
10,849	8,326
780	805
4,669,751	4,862,574
3,981,350	3,881,914
269,386	349,689
96,634	98,567
108,310	154,210
40,290	39,944
4,495,970	4,524,324
780	805
173,001	337,445
4,669,751	4,862,574
258,067	253,649
77,637	73,261
1,169	742
429	429
140	119
337,442	328,200
243,751	235,639
8,919	10,231
5,544	5,451
2,178	2,998
8,375	8,337
260	241
269,027	262,897
68,415	65,303
337,445	398,143
-	-
(22,876)	-
(209,408)	(125,426)
25	25
-	-
(600)	(600)
173,001	337,445

municipal finance authority

BOND ISSUES

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2008 \$(000)	INTEREST
55/CP	8.750% Debentures due May 12, 2013	May 12, 1993	50,000	50,000	Semi-annual May 12 November 12
63	4.00% Debentures due December 1, 2010	December 1, 2005	121,000	121,000	Semi-annual June 1 December 1
70/CW	5.25% Debentures due June 1, 2009	March 24, 1999	646,000	646,000	Semi-annual June 1 December 1
74/CX	5.90% Debentures due June 1, 2011	April 4, 2001	491,800	491,800	Semi-annual June 1 December 1
78CZ	5.25% Debentures due December 3, 2012	October 3, 2002	340,000	340,000	Semi-annual June 3 December 3
80CV	4.250 – 4.850% Serial Debentures due October 3, 2009 – 2012	October 3, 2003	130,700	66,800	Semi-annual April 3 October 3
80DA	4.900% Debentures due December 3, 2013	December 3, 2003	288,300	288,300	Semi-annual April 3 October 3
81DB	4.100 – 4.950% Serial Debentures due April 22, 2009 – 2013	April 22, 2004	40,000	20,400	Semi-annual April 22 October 22
85DC	4.900% Debentures due December 2, 2014	October 25, 2004	180,000	180,000	Semi-annual June 2 December 2
86DD	5.350% Debentures due December 2, 2024	October 25, 2004	50,000	50,000	Semi-annual June 2 December 2
87DP	3.850% Debentures due May 1, 2011	May 1, 2008	19	19	Semi-annual May 1 November 1
88	4.710% Debentures due October 1, 2009	October 1, 2004	200	200	Annual October 1

DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS \$(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	2009 - 16,700 2010 - 16,700 2011 - 16,700 2012 - 16,700	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	
Fully registered \$1,000 and multiples thereof	Non-callable	2009 - 4,900 2010 - 4,250 2011 - 4,250 2012 - 3,500 2013 - 3,500	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$100 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company

municipal finance authority

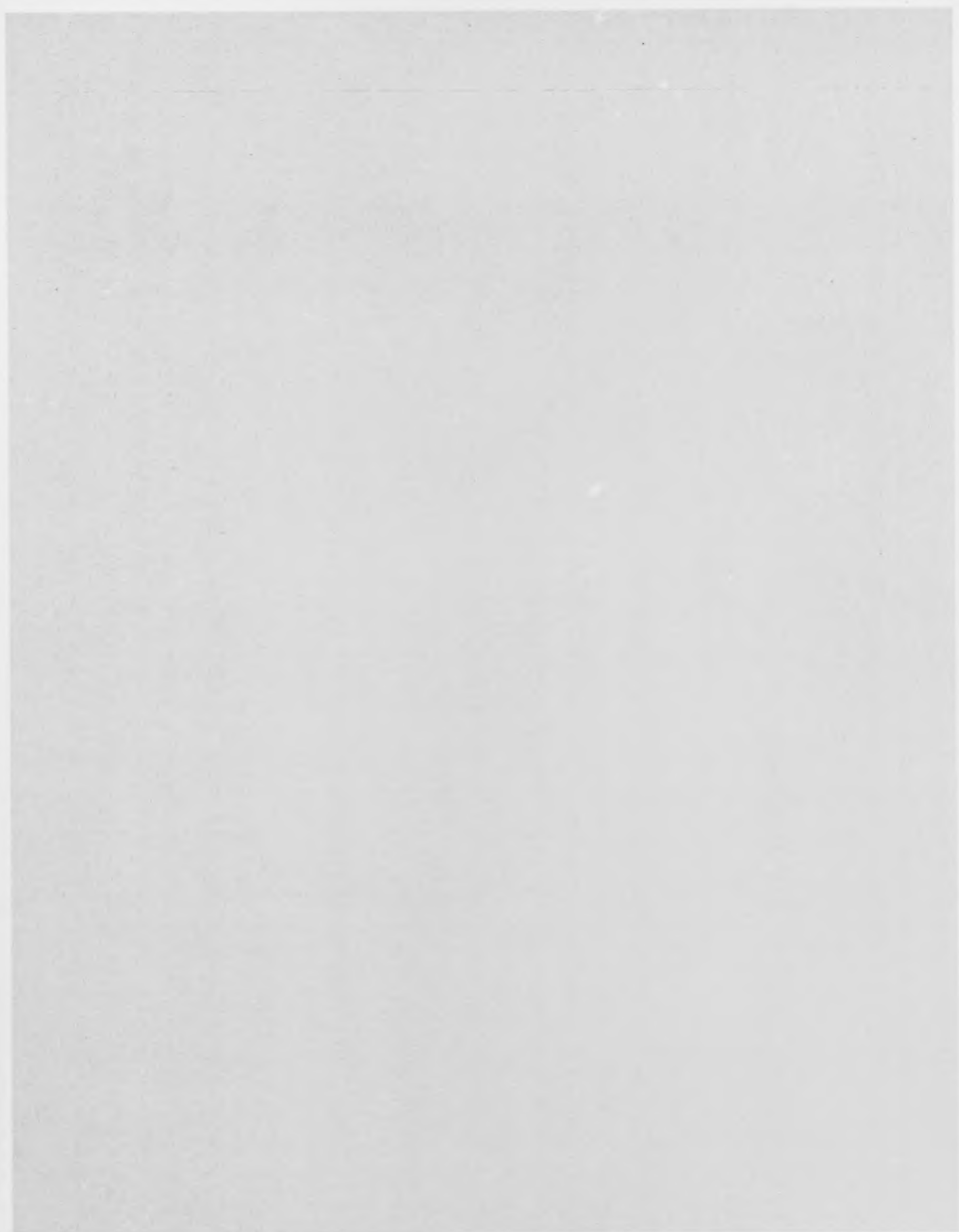
BOND ISSUES *continued*

CANADIAN DOLLAR BONDS ISSUED IN CANADA

ISSUE / SERIES	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2008 \$(000)	INTEREST
91	3.250% Debentures due March 16, 2010	March 16, 2005	220	220	Annual March 16
92DF	3.650 - 4.700% Serial Debentures due April 6, 2009 - 2015	April 6, 2005	63,400	51,100	Semi-annual April 6 October 6
93DG	4.978% Amortizing Debentures due April 6, 2025	April 6, 2005	118,300	105,025	Semi-annual April 6 October 6
95DH	4.150% Debentures due October 13, 2015	October 13, 2005	167,000	167,000	Semi-annual April 13 October 13
96DI	4.600% Debentures due April 2, 2026	October 13, 2005	50,000	50,000	Semi-annual April 2 October 2
97DL	4.650% Debentures due April 19, 2016	April 19, 2006	715,000	715,000	Semi-annual April 2 October 2
98	4.000% Debentures due May 15, 2011	May 15, 2006	175	175	Annual May 15
101DM	4.800% Debentures due December 1, 2017	October 10, 2007	500,000	500,000	Semi-annual June 1 December 1
102DN	4.950% Debentures due December 1, 2027	November 1, 2007	310,000	310,000	Semi-annual June 1 December 1
103DO	4.600% Debentures due April 23, 2018	April 23, 2008	440,000	440,000	Semi-annual April 23 October 23
104DQ	5.100% Debentures due November 20, 2018	November 20, 2008	400,000	400,000	Semi-annual May 20 November 20

DENOMINATIONS	CALL PROVISION	SINKING FUND OR MATURITIES NEXT 5 YEARS \$(000)	RETRACTION OR EXTENSION	REGISTRAR AND TRANSFER AGENT
Fully registered \$100 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	2009 - 4,100 2010 - 4,100 2011 - 4,050 2012 - 4,050 2013 - 3,900 Thereafter - 30,900	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$100 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company
Fully registered \$1,000 and multiples thereof	Non-callable	None	N/A	CIBC Mellon Trust Company

CIBC Mellon Trust Company
1600 - 1066 West Hastings St.
Vancouver, BC V6E 3X1
320 Bay St.
Toronto, ON M5H 4A6



pooled investments

FINANCIAL STATEMENTS

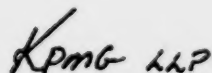
AUDITORS' REPORT

To the Unitholders of the Municipal Finance Authority of British Columbia Pooled Investment Funds

We have audited the statements of net assets of the Money Market Fund, the Intermediate Fund and the Bond Fund of the Municipal Finance Authority of British Columbia (the "Authority") as at December 31, 2008 and 2007, and the statements of operations and unitholders' equity and changes in net assets of each of these Funds for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of these Funds of the Authority as at December 31, 2008 and 2007, and the results of their operations, their cash flows and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.



CHARTERED ACCOUNTANTS

VICTORIA, BRITISH COLUMBIA, CANADA

JANUARY 28, 2009

pooled investments

STATEMENTS OF NET ASSETS

December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
(Restated, Note 2)								
ASSETS								
Cash	\$ 17	37	22	13	14	14	53	64
Unitholder receivable	40,002	5,031	500	-	500	-	41,002	5,031
Receivable for investments sold	-	-	-	-	23,876	-	23,876	-
Investments (Schedules 1, 2 and 3)	1,631,809	1,229,098	181,599	187,667	196,145	149,321	2,009,553	1,566,086
	1,671,828	1,234,166	182,121	187,680	220,535	149,335	2,074,484	1,571,181
LIABILITIES								
Accrued management fees	211	162	32	33	31	25	274	220
Unitholder payable	8,303	583	-	5,000	23,566	-	31,869	5,583
	8,514	745	32	5,033	23,597	25	32,143	5,803
NET ASSETS AND UNITHOLDERS' EQUITY	\$ 1,663,314	1,233,421	182,089	182,647	196,938	149,310	2,042,341	1,565,378

See Accompanying Notes to Financial Statements



DIRECTOR OF FINANCE

pooled investments

STATEMENTS OF OPERATIONS AND UNITHOLDERS' EQUITY

Years ending December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
(Restated, Note 2)								
INVESTMENT INCOME								
Interest income	\$ 51,978	55,385	8,551	7,269	7,317	7,193	67,846	69,847
Less management fees	2,139	1,830	356	356	337	305	2,832	2,491
	49,839	53,555	8,195	6,913	6,980	6,888	65,014	67,356
GAIN (LOSS) ON INVESTMENTS								
Net realized gain (loss)	15	-	722	(1,123)	2,189	(2,927)	2,926	(4,050)
Net unrealized gain	-	-	653	1,297	1,788	583	2,441	1,880
Net gain (loss) on investments	15	-	1,375	174	3,977	(2,344)	5,367	(2,170)
NET EARNINGS DISTRIBUTED	\$ 49,854	53,555	9,570	7,087	10,957	4,544	70,381	65,186
UNITHOLDERS' EQUITY								
Units outstanding, beginning of the year	\$ 1,233,421	1,105,091	182,647	202,912	149,310	161,183	1,565,378	1,469,186
Transitional bid price adjustment to opening units (Note 2)	-	-	-	(265)	-	(38)	-	(303)
Units subscribed	1,896,326	1,341,513	40,945	70,375	47,615	11,989	1,984,886	1,423,877
Distributions reinvested	49,854	53,555	9,570	7,087	10,957	4,544	70,381	65,186
Units redeemed	(1,516,287)	(1,266,738)	(51,073)	(97,462)	(10,944)	(28,368)	(1,578,304)	(1,392,568)
UNITS OUTSTANDING, END OF THE YEAR	\$ 1,663,314	1,233,421	182,089	182,647	196,938	149,310	2,042,341	1,565,378

See Accompanying Notes to Financial Statements

pooled investments

STATEMENTS OF CHANGES IN NET ASSETS

Years ending December 31, 2008 and 2007

THOUSANDS OF DOLLARS

	MONEY MARKET FUND		INTERMEDIATE FUND		BOND FUND		TOTAL	
	2008	2007	2008	2007	2008	2007	2008	2007
(Restated, Note 2)								
Net Assets, beginning of the year	\$ 1,233,421	1,105,091	182,647	202,647	149,310	161,145	1,565,378	1,469,186
Changes during the year due to:								
Operations:								
Net investment income	49,839	53,555	8,195	6,913	6,980	6,888	65,014	67,356
Net gain on investments	15	-	1,375	174	3,977	(2,344)	5,367	(2,170)
	49,854	53,555	9,570	7,087	10,957	4,544	70,381	65,186
Unit transactions:								
Subscriptions	1,896,326	1,341,513	40,945	70,375	47,615	11,989	1,984,886	1,423,877
Redemptions	(1,516,287)	(1,266,738)	(51,073)	(97,462)	(10,944)	(28,368)	(1,578,304)	(1,392,568)
	380,039	74,775	(10,128)	(27,087)	36,671	(16,379)	406,582	31,309
Distributions to unitholders:								
Investment income	(49,839)	(53,555)	(8,195)	(6,913)	(6,980)	(6,888)	(65,014)	(67,356)
(Gain) loss on investments	(15)	-	(1,375)	(174)	(3,977)	2,344	(5,367)	2,170
Distributions reinvested	49,854	53,555	9,570	7,087	10,957	4,544	70,381	65,186
NET ASSETS, END OF THE YEAR	\$ 1,663,314	1,233,421	182,089	182,647	196,938	149,310	2,042,341	1,565,378

See Accompanying Notes to Financial Statements

pooled investments

NOTES TO FINANCIAL STATEMENTS

Years ending December 31, 2008 and 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Pooled Investment Funds are established by and operate under Section 16 of the Municipal Finance Authority Act (the "Act"). Three funds are maintained:

- (a) Money Market Fund which commenced operations on May 1, 1989;
- (b) Intermediate Fund which commenced operations on March 25, 1994; and
- (c) Bond Fund which commenced operations on May 10, 1989.

These funds are authorized to issue an unlimited number of units, each of which represents an equal undivided interest in the net assets of the respective funds pro rata with all other units from time to time issued and outstanding. Units are issued or redeemed at \$1,000 per unit. Under Section 149 (1) (c) of the *Income Tax Act*, the funds are exempt from income taxes.

The financial statements have been prepared by management in accordance with the following significant accounting policies.

MONEY MARKET FUND

- (a) Investments are carried at market value.
- (b) Interest income is recognized as earned.
- (c) Management fees are accrued daily at the rate of 0.15 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.
- (d) Net earnings from operations are distributed to unitholders daily as additional units of the fund.

INTERMEDIATE FUND/BOND FUND

- (a) Investments are carried at market value.
- (b) Investment transactions are accounted for on the trade date and gains/losses from such transactions are calculated on an average cost basis.
- (c) Interest income is recognized as earned.
- (d) Management fees are accrued weekly and at month-end at the rate of 0.20 percent per annum of the net assets of the fund and are paid monthly to the Operating Fund of the Authority.

- (e) Net earnings from operations are distributed to unitholders weekly and at month-end as additional units of the fund.
- (f) Accretion of discounts and premiums are amortized on a straight-line basis over the term of the investment.

2. CHANGE IN ACCOUNTING POLICY

On January 1, 2008, the funds adopted CICA Handbook sections 3862 (Financial Instruments – Disclosure) and 3863 (Financial Instruments – Presentation).

Section 3862 requires disclosures that enable users of the financial statements to evaluate the significance of financial instruments to the fund's financial position and performance and to evaluate the nature and extent of risks arising from financial instruments and how the funds manage those risks.

Section 3863 carries forward the former presentation requirements included in CICA Handbook Section 3861 and establishes standards for presentation of financial instruments and non-financial derivatives.

On January 1, 2007 the funds adopted the CICA Handbook sections 3855 (Financial Instruments – Recognition and Measurement), 3861 (Financial Instruments – Disclosure and Presentation) and 3865 (Hedges). A transitional adjustment of \$302,296 was recorded as a decrease in net assets.

Prior period adjustment

In 2008, the financial reporting was revised for certain pooled investments managed under the Act. Included in the units outstanding of the Money Market Fund as at December 31, 2007 were fixed-term unit holdings of \$416,484,000 and net earnings of \$8,834,000 which are no longer included in the reporting of the pooled investment funds presented herein and are reported upon separately to the investors. The 2007 financial statements have been restated to remove these amounts. This change in reporting has no impact on pooled investment unitholders.

3. FUTURE ACCOUNTING CHANGES

The Canadian Institute of Chartered Accountants will tran-

pooled investments

NOTES TO FINANCIAL STATEMENTS *continued*

sition Canadian generally accepted accounting standards for publicly accountable entities to International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The funds are currently assessing the impact of these standards on their financial statements.

4. FINANCIAL INSTRUMENTS

All unitholder receivables, receivables for investments sold, accrued management fees and unitholder payables have been classified as loans and receivables or other liabilities and are recorded at amortized cost using the effective yield basis.

Transaction costs are expensed and included in the Statements of Operations and Unitholders' Equity in the period incurred.

Investments are designated as held for trading and recorded at market value measured at mid-market prices which approximate bid values.

5. FINANCIAL INSTRUMENTS RISK

a. Risk management

Risk management is achieved through segregation of duties whereby the investment management decisions are undertaken by a professional fund manager (Phillips Hager North Investment Management Ltd.), custody of the assets and accounting functions undertaken by a professional custodian (CIBC Mellon Trust Company), and overall governance of the funds monitored by the Investment Advisory Committee comprised of Trustees of the Municipal Finance Authority of BC.

The Investment Advisory Committee establishes the investing guidelines, reviews the fund manager's compliance and assesses performance in comparison to the DEX 91-Day Treasury Bill Index, the DEX 365-Day Treasury Bill Index, and the DEX Short Term Index on a quarterly basis.

b. Liquidity risk

Liquidity risk arises from the risk that a portfolio may not be able to settle or meet its obligation on time or at a reasonable price.

Each portfolio is exposed to daily and weekly cash redemptions of units at the current Net Assets Value per unit at the option of the unitholder. The funds invest the majority of their assets in investment that are traded in an active market and can be readily disposed. In addition each Fund retains sufficient cash and cash equivalent positions to maintain liquidity.

As of December 31, 2008 the duration of the funds was 84 days for Money Market Fund, 329 days for the Intermediate Fund, and 2.81 years for the Bond Fund.

c. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The funds invest significantly in interest bearing securities and are therefore susceptible to market rate fluctuations however the short duration of the investments lessens the affect of changes in interest rates. Had the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the net earnings and net assets of the funds would have decreased or increased as follows:

THOUSANDS OF DOLLARS		
	2008	2007
Intermediate Fund	\$ 1,475	1,174
Bond Fund	5,532	3,555

The Money Market Fund is valued at market value and an interest rate change would not have a material effect on net assets. The yield on the fund would move towards the new interest rate, with a time lag, as the underlying securities matured and new securities were purchased.

For the year ended December 31, 2008 yields on the funds were 3.77% for Money Market Fund, 5.13% for the Intermediate Fund, and 6.97% for the Bond Fund.

d. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment.

The fair value of the investment portfolio includes consideration of the credit worthiness of debt issuers. The carrying value of all assets represents the maximum credit risk exposure as at December 31, 2008.

e. Other price risk and currency risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

All securities present a risk of capital loss however the fund manager moderates risk through a conservative selection of securities and diversification within the parameters of the investment policy.

The funds are not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

(SCHEDULE 1)**pooled investments****MONEY MARKET FUND—SCHEDULE OF INVESTMENTS***December 31, 2008*

THOUSANDS OF DOLLARS	MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
----------------------	---------------	-----	--------------	------------

Short-term Investments**Treasury Bills**

Government of Canada	April 30, 2009	\$ 35,000,000	34,873,825	
Province of Ontario	February 6, 2009	22,950,000	22,903,320	
Province of Ontario	February 23, 2009	19,800,000	19,740,498	
Province of Ontario	April 29, 2009	105,750,000	104,905,987	
Province of Ontario	May 11, 2009	37,500,000	37,235,439	
		221,000,000	219,659,069	13.46%

Bankers Acceptance

Bank of Montreal	May 5, 2009	3,775,000	3,739,675	
Canadian Imperial Bank of Commerce	March 25, 2009	3,500,000	3,469,273	
Canadian Imperial Bank of Commerce	April 22, 2009	7,225,000	7,160,049	
Canadian Imperial Bank of Commerce	May 6, 2009	34,300,000	33,902,165	
Canadian Imperial Bank of Commerce	May 7, 2009	27,000,000	26,733,603	
Canadian Imperial Bank of Commerce	May 13, 2009	8,525,000	8,427,577	
Toronto Dominion Bank	February 11, 2009	6,100,000	6,083,656	
		90,425,000	89,515,998	5.49%

Discount Commercial Paper

Alberta Capital Finance Corp.	February 18, 2009	24,100,000	24,057,249	
Bank Nova Scotia BDN	January 14, 2009	7,575,000	7,566,437	
Bank Nova Scotia BDN	February 12, 2009	5,000,000	4,985,985	
Bank Nova Scotia BDN	March 11, 2009	13,075,000	13,033,163	
Bank of Montreal BDN	January 15, 2009	20,300,000	20,271,258	
Bank of Montreal BDN	April 6, 2009	26,125,000	25,875,474	
Bay Street Funding Trust	January 28, 2009	10,000,000	9,978,619	
Bay Street Funding Trust	February 2, 2009	2,550,000	2,543,230	
Bay Street Funding Trust	February 17, 2009	4,000,000	3,984,061	
Bay Street Funding Trust	March 17, 2009	13,275,000	13,182,494	
Bay Street Funding Trust	March 18, 2009	5,000,000	4,968,987	
Central 1 Credit Union	February 18, 2009	5,250,000	5,232,508	
Diversified Trust	March 3, 2009	14,950,000	14,874,361	
Diversified Trust	March 17, 2009	21,000,000	20,849,461	
Diversified Trust	March 26, 2009	25,000,000	24,777,077	
Encana Corp.	February 25, 2009	3,000,000	2,991,663	
Encana Corp.	March 17, 2009	24,000,000	23,901,783	
Encana Corp.	March 19, 2009	22,000,000	21,907,567	
Financiere CDP Inc.	April 15, 2009	10,450,000	10,402,015	
HSBC Bank Canada BDN	April 22, 2009	6,500,000	6,466,608	

(SCHEDULE 1)

pooled investments

MONEY MARKET FUND—SCHEDULE OF INVESTMENTS *continued*

December 31, 2008

THOUSANDS OF DOLLARS	MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
HSBC Bank Canada BDN	May 4, 2009	13,000,000	12,870,499	
HSBC Bank Canada BDN	May 5, 2009	23,300,000	23,066,007	
HSBC Bank Canada BDN	June 4, 2009	23,500,000	23,267,748	
HSBC Bank Canada BDN	June 8, 2009	13,850,000	13,713,652	
Interpipe Inc.	February 20, 2009	5,800,000	5,779,254	
Interpipe Inc.	March 6, 2009	11,000,000	10,955,868	
Interpipe Inc.	March 11, 2009	9,000,000	8,965,305	
Interprovincial Pipe Line Inc.	March 17, 2009	8,000,000	7,967,261	
King Street Funding Trust	January 12, 2009	7,000,000	6,991,641	
King Street Trust	February 23, 2009	11,750,000	11,699,186	
King Street Trust	March 11, 2009	5,000,000	4,971,844	
King Street Trust	March 23, 2009	28,775,000	28,530,010	
McCain Finance (Canada) Ltd.	January 15, 2009	17,800,000	17,773,592	
McCain Finance (Canada) Ltd.	February 5, 2009	5,300,000	5,284,623	
McCain Finance (Canada) Ltd.	February 17, 2009	9,000,000	8,966,071	
McCain Finance (Canada) Ltd.	February 20, 2009	15,700,000	15,637,033	
Merit Trust	January 27, 2009	6,050,000	6,036,514	
Merit Trust	February 2, 2009	14,000,000	13,962,219	
Plaza Trust	March 24, 2009	42,825,000	42,538,581	
Royal Bank of Canada BDN	January 20, 2009	21,625,000	21,608,154	
Safe Trust	February 26, 2009	11,700,000	11,637,396	
Safe Trust	March 4, 2009	12,150,000	12,079,629	
Safe Trust	March 11, 2009	1,500,000	1,490,111	
Safe Trust	March 12, 2009	9,000,000	8,939,804	
Safe Trust	May 5, 2009	10,500,000	10,379,028	
Safe Trust	May 14, 2009	19,775,000	19,547,975	
Safe Trust	May 21, 2009	17,000,000	16,788,285	
Scotiabanc Inc.	January 26, 2009	10,500,000	10,489,200	
Shoppers Drug Mart	January 12, 2009	29,800,000	29,783,922	
Shoppers Drug Mart	January 19, 2009	8,400,000	8,388,660	
Smart Trust	February 26, 2009	4,830,000	4,804,156	
Smart Trust	March 16, 2009	18,000,000	17,872,687	
Smart Trust	March 18, 2009	21,000,000	20,845,398	
Smart Trust	March 24, 2009	24,000,000	23,793,684	
Smart Trust	May 5, 2009	11,000,000	10,873,268	
Smart Trust	May 13, 2009	2,500,000	2,471,515	
Sound Trust	March 3, 2009	14,875,000	14,788,301	
Sound Trust	March 9, 2009	12,750,000	12,668,377	
Sound Trust	March 12, 2009	18,000,000	17,879,608	
Sound Trust	March 24, 2009	20,000,000	19,828,070	

(SCHEDULE 1)**pooled investments****MONEY MARKET FUND—SCHEDULE OF INVESTMENTS** *continued**December 31, 2008*

THOUSANDS OF DOLLARS	MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
Sound Trust	March 25, 2009	12,000,000	11,895,584	
Sound Trust	May 21, 2009	2,000,000	1,975,092	
Sound Trust	June 2, 2009	2,000,000	1,972,156	
Storm King Funding Trust	February 11, 2009	12,600,000	12,544,132	
Storm King Funding Trust	February 24, 2009	4,000,000	3,982,073	
Storm King Funding Trust	March 24, 2009	38,975,000	38,714,330	
Summit Trust Series 'A'	March 26, 2009	22,650,000	22,448,032	
Summit Trust Series 'A'	May 4, 2009	22,500,000	22,246,466	
Summit Trust Series 'A'	May 14, 2009	14,875,000	14,698,964	
Summit Trust Series 'A'	June 5, 2009	4,000,000	3,949,773	
Toronto Dominion Bank BDN	January 6, 2009	7,350,000	7,346,821	
Toronto Dominion Bank BDN	March 6, 2009	37,425,000	37,215,091	
Toronto Dominion Bank BDN	April 22, 2009	16,750,000	16,601,876	
Terasen Gas Inc.	January 29, 2009	8,925,000	8,907,622	
Transcanada Pipeline Ltd.	February 13, 2009	18,600,000	18,532,648	
Vancouver City Savings Cu. BDN	February 3, 2009	925,000	923,291	
Vancouver City Savings Cu. BDN	February 12, 2009	11,275,000	11,235,711	
Vancouver City Savings Cu. BDN	February 17, 2009	17,000,000	16,933,725	
Vancouver City Savings Cu. BDN	February 20, 2009	2,000,000	1,991,839	
Vancouver City Savings Cu. BDN	March 4, 2009	1,500,000	1,492,965	
Vancouver City Savings Cu. BDN	March 6, 2009	6,000,000	5,971,469	
Vancouver City Savings Cu. BDN	March 13, 2009	10,000,000	9,955,492	
		1,106,055,000	1,099,319,294	67.36%
Total Short-term Investments		1,417,480,000	1,408,494,361	86.31%
Canadian Bonds				
Corporate Bonds				
Bank Nova Scotia	May 6, 2009	37,000,000	37,176,140	
Canada Housing Trust No 1	March 15, 2009	31,675,000	32,092,524	
Province of Ontario	March 2, 2009	33,000,000	33,084,450	
Province of Quebec	April 1, 2009	49,250,000	51,711,900	
Province of Quebec	June 1, 2009	68,000,000	69,249,481	
		218,925,000	223,314,495	13.69%
TOTAL INVESTMENTS PORTFOLIO		\$ 1,636,405,000	1,631,808,856	100.00%

(SCHEDULE 2)

pooled investments

INTERMEDIATE FUND—SCHEDULE OF INVESTMENTS

December 31, 2008

THOUSANDS OF DOLLARS		MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
Short-term Investments					
Treasury Bills					
	Government of Canada	February 5, 2009	\$ 175,000	174,865	0.10%
Discount Commercial Paper					
	Bay Street Funding Trust	February 12, 2009	325,000	323,921	
	Plaza Trust	January 27, 2009	150,000	149,674	
			475,000	473,595	0.26%
Total Short-term Investments			650,000	648,460	0.36%
Canadian Bonds					
Federal Bonds					
	Government of Canada	June 1, 2009	1,125,000	1,151,814	0.63%
Corporate Bonds					
	American Exp Canada Credit	January 27, 2009	7,000,000	7,131,235	
	Bank of Montreal	January 28, 2010	8,025,000	8,642,482	
	Bank of Nova Scotia	June 8, 2010	8,200,000	8,459,313	
	Canada Housing Trust No 1	March 15, 2009	53,225,000	54,064,084	
	Canada Housing Trust No 1	September 15, 2009	17,000,000	17,673,226	
	Canadian Credit Card Trust	April 26, 2010	4,300,000	4,340,259	
	Canadian Imperial Bank of Commerce	September 2, 2010	8,200,000	8,532,379	
	GE Capital Canada Funding Co.	June 7, 2010	6,500,000	6,447,097	
	Golden Credit Card Trust	June 15, 2010	8,500,000	8,560,716	
	Great West Life Co. Inc.	August 10, 2015	8,225,000	8,676,760	
	Greater Toronto Airport Authority	July 19, 2010	8,125,000	8,690,855	
	Household Financial Corp Ltd.	April 13, 2009	4,225,000	4,266,888	
	Master Credit Card Trust	November 21, 2009	8,475,000	8,611,956	
	Royal Bank of Canada	June 24, 2015	8,900,000	8,724,879	
	TD Capital Trust	December 31, 2009	8,500,000	8,599,509	
	Wells Fargo Financial Canada Corp.	June 28, 2010	8,475,000	8,377,103	
			175,875,000	179,798,741	99.01%
Total Canadian Bonds			177,000,000	180,950,555	99.64%
TOTAL INVESTMENTS PORTFOLIO			\$ 177,650,000	181,599,015	100.00%

(SCHEDULE 3)

pooled investments

BOND FUND—SCHEDULE OF INVESTMENTS

December 31, 2008

THOUSANDS OF DOLLARS	MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
Short-term Investments				
Treasury Bills				
Government of Canada	March 19, 2009	\$ 5,000,000	4,991,250	
Government of Canada	January 22, 2009	5,250,000	5,244,243	
Government of Canada	February 19, 2009	4,575,000	4,559,626	
Government of Canada	April 2, 2009	2,700,000	2,694,365	
Government of Canada	March 5, 2009	2,050,000	2,047,180	
		19,575,000	19,536,664	9.96%
Canadian Bonds				
Corporate Bonds				
407 International Inc.	January 25, 2011	350,000	360,054	
Altalink Investment LP	November 21, 2012	375,000	382,507	
American Express Canada Credit	April 2, 2013	740,000	707,788	
American Express Canada Credit	November 12, 2010	650,000	631,720	
Bank of Montreal	September 4, 2012	2,900,000	3,028,591	
Bank of Montreal	June 21, 2017	5,735,000	5,608,467	
Bank of Nova Scotia	October 30, 2013	1,000,000	1,019,456	
Bank of Nova Scotia	March 27, 2018	3,275,000	3,212,528	
Bank of Nova Scotia	April 8, 2013	1,085,000	1,140,506	
Bank of Nova Scotia	January 31, 2018	800,000	802,191	
Bank of Nova Scotia	October 3, 2018	525,000	532,745	
Bear Stearns Companies Inc.	November 12, 2009	1,450,000	1,466,981	
Bear Stearns Companies Inc.	January 12, 2011	2,425,000	2,486,656	
Bell Aliant Regional Communications	September 26, 2011	400,000	392,190	
Bell Canada	August 12, 2010	800,000	837,528	
Brookfield Renewable Power Inc.	December 16, 2009	1,210,000	1,227,932	
Calloway Real Estate Investment Trust	September 22, 2010	1,375,000	1,355,024	
Canadian Imperial Bank of Commerce	November 1, 2011	2,645,000	2,683,894	
Canadian Imperial Bank of Commerce	September 10, 2012	5,855,000	6,058,011	
Canadian Imperial Bank of Commerce	June 6, 2018	945,000	908,371	
Capital Desjardins Inc.	March 17, 2014	425,000	431,000	
Cards II Trust	October 15, 2010	705,000	712,825	
Central 1 Credit Union	December 21, 2016	500,000	512,175	
Citigroup Finance Canada Inc.	May 21, 2013	975,000	871,799	
Citigroup Finance Canada Inc.	October 25, 2010	510,000	500,659	
Gaz Metro Inc.	April 15, 2013	1,500,000	1,572,473	
GE Capital Canada Funding Co	August 17, 2012	405,000	407,135	
Golden Credit Card Trust	April 15, 2013	1,260,000	1,324,331	
Golden Credit Card Trust	February 15, 2011	1,325,000	1,345,443	
Golden Credit Card Trust	April 15, 2011	505,000	515,923	
Goldman Sachs Group Inc.	June 1, 2011	1,750,000	1,651,174	
Greater Toronto Airport Authority	December 13, 2012	2,980,000	3,119,578	
HSBC Bank Canada	October 12, 2010	500,000	522,868	
HSBC Bank Canada	March 28, 2011	1,415,000	1,480,453	
HSBC Financial Corp Ltd.	April 13, 2011	685,000	688,011	
HSBC Financial Corp Ltd.	May 3, 2012	500,000	444,140	
Hydro One Inc.	March 3, 2011	2,900,000	2,979,944	
Hydro One Inc.	November 12, 2013	1,770,000	1,829,261	
JP Morgan Chase & Co.	September 8, 2015	900,000	887,956	
Manulife Financial Corp.	June 26, 2015	1,200,000	1,128,622	

(SCHEDULE 3)

pooled investments

BOND FUND—SCHEDULE OF INVESTMENTS *continued*

December 31, 2008

THOUSANDS OF DOLLARS	MATURITY DATE	PAR	MARKET VALUE	% OF TOTAL
Master Credit Card Trust	May 21, 2013	1,500,000	1,526,813	
Master Credit Card Trust	August 21, 2012	2,900,000	2,994,137	
Merrill Lynch & Co Inc.	January 30, 2012	3,150,000	3,094,684	
Morgan Stanley	February 23, 2012	2,720,000	2,415,228	
Morgan Stanley	February 23, 2012	950,000	772,047	
N-46 A-B Notes Issuer Inc.	July 15, 2011	1,858,436	1,847,203	
NHA MBS Bank of Montreal	July 1, 2012	6,756,696	6,963,040	
NHA MBS Bank of Montreal	December 1, 2012	5,161,776	5,347,107	
Province of British Columbia	August 23, 2013	5,390,000	6,872,941	
Province of Ontario	June 2, 2013	34,745,000	37,576,439	
Province of Quebec	October 1, 2013	900,000	989,675	
PSP Capital Inc.	December 9, 2013	5,425,000	5,582,013	
RBC Subordinated Notes Trust	April 30, 2017	2,100,000	2,042,630	
Riocan Real Estate Investment	March 24, 2010	1,150,000	1,148,893	
Royal Bank of Canada	July 17, 2013	2,525,000	2,668,910	
Royal Bank of Canada	August 15, 2012	4,625,000	4,927,643	
Schlumberger Canada Ltd.	July 12, 2010	725,000	761,764	
Scotiabank Subordinated Notes Trust	November 1, 2017	2,890,000	2,859,271	
Sun Life Financial Inc.	June 26, 2018	2,000,000	1,917,801	
TD Capital Trust	December 31, 2009	3,080,000	3,116,058	
Telus Corporation	March 15, 2012	185,000	182,917	
Terasen Pipelines Corridor Inc.	February 2, 2010	1,050,000	1,074,349	
Toronto Dominion Bank	February 13, 2013	2,050,000	2,141,364	
Toronto Dominion Bank	November 1, 2017	3,650,000	3,640,521	
Toronto Dominion Bank	April 2, 2020	520,000	498,671	
Wells Fargo Financial Canada Corp.	June 26, 2012	1,750,000	1,734,314	
Wells Fargo Financial Canada Corp.	September 13, 2012	2,125,000	2,138,213	
Wells Fargo Financial Canada Corp.	February 28, 2011	550,000	553,004	
Weston (George) Ltd.	February 5, 2009	600,000	616,124	
YPG Holdings Inc	April 21, 2009	1,400,000	1,415,597	
		161,681,908	167,188,281	85.24%

MORTGAGES

NHA Insured Mortgages	Penmor Loan #1924-2W	November 1, 2009	513,654	520,430	
	Penmor Loan #1995-1J	November 15, 2008	453,538	458,815	
	Penmor Loan #2341-1W	November 1, 2011	531,232	532,008	
	Penmor Loan #3881-Of	March 1, 2010	1,038,375	1,052,552	
	Penmor Loan #2699-0w	August 15, 2009	1,443,094	1,464,204	
	Penmor Loan 2787-Of	March 1, 2010	910,840	932,809	
	Penmor Loan 2793-Of	March 1, 2010	712,175	728,661	
	Penmor Loan #2331-1W	December 1, 2010	1,204,857	1,251,411	
	Penmor Loan #3213-0w	March 1, 2012	537,370	559,571	
	Penmor Loan #2372-1W	March 1, 2012	522,472	542,057	
	Penmor Loan #3133-0rm	June 1, 2012	933,244	978,607	
	Penmor Loan #2355-1K	January 1, 2014	234,538	243,765	
	Penmor Loan #3429-0W	January 1, 2015	146,982	155,351	
			9,182,370	9,420,241	4.80%

TOTAL INVESTMENTS PORTFOLIO

\$ 190,439,278

196,145,186

100.00%

municipal finance authority

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